

VZCZCXRO6750
OO RUEHDE RUEHDIR
DE RUEHKU #0881 1570758
ZNY CCCCC ZZH
O 060758Z JUN 07
FM AMEMBASSY KUWAIT
TO RUEHC/SECSTATE WASHDC IMMEDIATE 9304
INFO RUEHZM/GULF COOPERATION COUNCIL COLLECTIVE PRIORITY
RUEHFR/AMEMBASSY PARIS PRIORITY 1096
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY
RUEHBS/USEU BRUSSELS PRIORITY
RUERFTJ/FAA EASTERN REG AEA/700 PRIORITY

C O N F I D E N T I A L KUWAIT 000881

SIPDIS

NOFORN
SIPDIS

STATE FOR NEA/ARP, EB/TRA
COMMERCE FOR ITA/USFCS/ADVOCACY CENTER/CJAMES

E.O. 12958: DECL: 06/06/2012

TAGS: [EAIR](#) [BEXP](#) [ECON](#) [KU](#)

SUBJECT: KUWAIT AIRWAYS AGREES TO BUY 12 BOEINGS AS PART OF
19 PLANE DEAL WITH MORE TO COME

REF: STATE 75538

Classified By: Ambassador Richard LeBaron for reasons 1.4 (b) and (d).

¶1. (SBU) Kuwait Airways Corporation (KAC) has reached an agreement to purchase 12 Boeing 787 Dreamliners and 7 Airbus 320s from the Kuwaiti firm Aviation Lease and Finance Company (ALAFCO). ALAFCO, which already had standing orders for the aircraft, will deliver the Boeings in 2010 and the Airbuses in 2009. According to Ehab Shihabi, Boeing's Sales Manager for the Gulf region, ALAFCO's pre-existing orders will allow the Boeing planes to be delivered three years earlier than if KAC had placed its own order. Shihabi said this purchase is the first phase of KAC's three-phase plan to upgrade and expand its fleet. He added that he expects an announcement about the second phase later this summer, likely in August. Shihabi noted further that KAC is still considering the purchase of an additional 12-18 planes, and that Boeing has proposals with KAC for those later phases.

¶2. (C/NF) Shihabi said Boeing is "very supportive" of KAC's purchase decision since the deal involves Boeing wide body planes, which he said are far more profitable for the manufacturer than the smaller planes to be obtained from Airbus. Shihabi said Boeing has a good relationship with ALAFCO, which has been involved in leasing Boeing planes for many years. The deal was done via ALAFCO, not directly between KAC and Boeing, both because of the expedited delivery schedule and because, as a private Kuwaiti company, it is easier for ALAFCO to deal directly with KAC. Shihabi also cited KAC's 10% ownership in ALAFCO as a likely contributing factor in the arrangement.

¶3. (C/NF) Prior to the deal, Boeing had expressed concerns about its potential obligations under Kuwait's Offset Program, which could have exceeded USD 1 billion. Shihabi said as part of the deal, Boeing "found a way around the offset" by gaining mutually-beneficial concessions from KAC and the Offset Program office to provide KAC with training, servicing equipment, and other support that would satisfy Boeing's offset obligations but also provide expanded business opportunities. Post is following up with contacts at Kuwait Airways for further information on the deal and the timing of subsequent purchase phases.

¶4. (C/NF) Post appreciates the timeliness of the Secretary's advocacy letter to Kuwaiti PM Al-Sabah on Boeing aircraft (Ref A), which significantly buttresses our previous efforts. The letter was delivered to the PM's office on June 2.

***** *
For more reporting from Embassy Kuwait, visit:
<http://www.state.sgov.gov/p/nea/kuwait/?cable> s
Visit Kuwait's Classified Website:
<http://www.state.sgov.gov/p/nea/kuwait/>
***** *

LeBaron